

calculations and assumptions, (7) drop wire assumptions, (8) vertical features, (9) nonrecurring costs, and (10) the Residual Recovery Requirement. (Dismukes Testimony, p. 10)

9. Now I will describe the basis for BellSouth's original cost studies and the fundamental methodology used to determine the costs. I will also explain the modifications to the studies made by Ms. Dismukes.

***Costs for Network Interconnection, Unbundled Network Elements, Local Transport and Termination, and Collocation - General Methodology.***

10. The Act in 47 U.S.C. Section 252 (d)(1) requires that prices for interconnection and unbundled network elements be "based upon the cost" of providing these elements, products and services, and "may include a reasonable profit". The Federal Communications Commission's First Report and Order on Local Competition CC Docket 96-98 (Order) prescribed a methodology for identifying the appropriate cost on which these prices should be based. This methodology is the sum of the Total Element Long Run Incremental Cost (TELRIC) and a reasonable allocation of forward-looking common cost.

11. The Act in 47 U.S.C. Section 252 (d)(2) requires that the charges for local transport and termination recover the "costs" of transporting and terminating "calls that originate on the network facilities of the other carrier." The Order in Paragraph 1056 specified these costs were to be determined in the same manner as the costs for network interconnection, unbundled network elements and collocation.

12. After passage of the Act, and in anticipation of the Commission's pricing regulations, BellSouth performed cost studies designed to determine the forward-looking

economic costs of providing services to CLECs. Following the issuance of the Commission's Local Competition First Report and Order and its accompanying regulations on August 8, 1996, BellSouth revised its studies to ensure that they conformed with the rules and principles enumerated in the Commission's Order. Although the Eighth Circuit Court of Appeals later vacated the Commission's pricing rules, those rules were nonetheless observed in the BellSouth cost studies. The exclusion of historical costs was one of the underlying principles set forth in the Order. BellSouth chose to identify historical costs for loops and ports, the Residual Recovery Requirement, under a separate study to facilitate the rate setting process. The Residual Recovery Requirement identifies the shortfall between the TELRIC economic costs and the actual costs of providing unbundled network elements. Ms. Dismukes recommended that the Residual Recovery Requirement not be included in the prices. (Dismukes Testimony, p. 47) Therefore, the rates adopted by the LPSC include only TELRIC plus a reasonable allocation of forward-looking common costs.

13. The studies conducted for these elements are forward-looking, long run, incremental cost studies considering the "total quantity of the facilities" as required by 47 C.F.R. Section 51.505(b). Certain historical data, such as investments and expenses by account, field reporting code, Cost Pool, and/or Cost Sub-Pool, was used in the development of factors in order to predict future relationships based on forward-looking investments and expenses. However, the investments, expenses and the costs developed from these relationships are forward-looking. BellSouth has not included the cost associated with older technology such as analog end office switches or analog carrier systems. AT&T's witness, Mr. Follensbee, incorrectly asserts on page 25 that

BellSouth's studies "included excessive amounts of analog switches." Analog switches were excluded from the TELRIC studies.

14. The technology chosen for these studies is based on the most efficient technology currently available, given existing wire center locations as required by 47 C.F.R. Section 51.505(b)(1). For example, in the Operator Services studies, forward-looking digital switch technology is utilized for Host and Remote switches at existing wire center locations.

15. The Order provides for deriving per-unit costs "by dividing total costs associated with the element by a reasonable projection of the actual usage of the element." Rather than use scenarios which are dependent upon the business plans of competitors and their relative success in the marketplace, BellSouth has elected to use current patterns of use until there is some actual basis to determine which scenario is the most successful and how that scenario affects utilization of each element. Ms. Dismukes recommended that the utilization or fill factors be adjusted to levels she felt were more appropriate. Her recommendation was based on decisions by the California and Texas Commissions as well as data BellSouth had provided in cost studies filed in June 1996. (Dismukes Testimony, p. 30)

16. The forward-looking cost of capital used in these studies reflects a conservative estimate of the risk characteristics of the increasingly competitive environment BellSouth is confronting. The cost of capital recommended by BellSouth was 11.25%, while Ms. Dismukes recommended a cost of capital of 10.15% which she felt was "more Louisiana-specific." (Dismukes Testimony, p. 11) Therefore, the cost of

capital included in the cost studies which support the rates adopted by the LPSC complies with 47 C.F.R. Section 51.505(b)(2).

17. With respect to depreciation, BellSouth selected “economic depreciation rates” as required in 47 C.F.R. Section 51.505(b)(3). Ms. Dismukes adjusted the depreciation lives based on her own analysis. (Dismukes Testimony, pp. 12-19)

18. Common Costs were identified using BellSouth’s most recent historical costs as a basis for projecting its forward-looking common costs. The historical costs were adjusted to exclude retail costs and a portion of executive, planning and general and administrative costs which arguably could be attributed to retail operations.

19. To recover common costs, a ratio (allocator) was developed. Two steps were required in this calculation. First, total wholesale common costs were developed by summing the directly assigned wholesale common costs and the allocated wholesale common costs. Secondly, the common cost allocator was developed by dividing the total wholesale common costs by the total wholesale costs excluding the common portion.

20. Ms. Dismukes accepted BellSouth’s methodology for calculating common costs with adjustments she outlined in her testimony. Ms. Dismukes’ common cost factor is 4.73% and BellSouth’s factor is 5.39%. (Dismukes Testimony, p. 38)

21. 47 C.F.R. Section 51.505(d)(1) specifies that embedded costs are not part of the costs of unbundled network elements. BellSouth followed this standard in developing the TSLRIC and TELRIC economic costs presented to the Louisiana Public Service Commission.

22. The studies for these elements do not include retail costs (marketing, billing, collection, etc.) associated with providing retail telecommunications services to

subscribers who are not telecommunications carriers in compliance with 47 C.F.R. Section 51.505(d)(2). In compliance with 47 C.F.R. Section 51.505(d)(3), opportunity costs have not been included in the costs of unbundled elements.

23. Revenue to subsidize other services has not been included in the costs of these elements in compliance with 47 C.F.R. Section 51.505(d)(4).

24. BellSouth complies with 47 C.F.R. Section 51.511(a) by apportioning the cost over a reasonable projection of the sum of the total number of units of the element that BellSouth is likely to provide. Because of the uncertainty involved in determining future demand for unbundled elements, BellSouth took the reasonable approach of utilizing recent usage figures in projecting “the sum of the total number of units.”

25. The units chosen correspond to the discrete number of elements for flat-rate services, or the unit of measurement of the usage of the element for usage-based services as required by 47 C.F.R. Section 51.511(b).

### ***Response to Criticism of Cost Development***

26. Several parties have alleged BellSouth has violated the principles which form the basis of TELRIC methodology thus invalidating the cost results. I will address each topic and explain why their allegations are invalid.

#### ***A. Forward-looking Costs***

27. AT&T’s witness, Mr. Follensbee, asserts that the costs developed by BellSouth “reflect an improper embedded cost focus.” MCI also parrots the same refrain stating that BellSouth’s cost studies reflect “outdated technology that is not efficient or forward-looking.” First, let me again emphasize that the TELRIC studies BellSouth filed with the Louisiana Commission employ forward-looking, most efficient network design

for a narrowband, voice grade network designed to provision elements on an unbundled basis. This design is consistent with the guidelines set forth by this Commission for TELRIC studies.

28. Also, let me emphasize again that the rates adopted by the LPSC were based on the costs developed by the staff consultant using BellSouth's models and cost studies. She obviously felt that the BellSouth studies, with her modifications, correctly determined the costs of an efficient forward-looking network since she proposed them to the Commission. Her adjustments indicate those areas where she felt the studies should be more forward-looking, including items previously discussed, as well as structure sharing, expense factors, and labor rates. She did not modify underlying network technologies, basic design, study methodology, or the models themselves.

29. Several of the witnesses state that BellSouth's TELRIC unbundled loop costs reflect outdated technology, Universal Digital Loop Carrier (UDLC), and thus are not forward-looking. This is absolutely incorrect. These accusations arise mainly from the belief that an unbundled loop and unbundled port should be a combined offering. However, because the loop and port are offered as stand alone Unbundled Network Elements (UNEs), the loops must terminate on the main distributing frame (MDF) at the voice grade level. This is the only way unbundled loops can be connected to a CLEC switch. When the technology the other parties are advocating, Integrated Digital Loop Carrier (IDLC), is used, the voice grade circuits are multiplexed into DS1 signals which terminate directly into the BellSouth switch. In order to deliver individual voice grade circuits to the CLEC switch, the individual circuits must be de-multiplexed from the DS1

by a central office channel bank or terminal. (Appendix C-3 Tab 263 submitted with BellSouth 271 Application in CC Docket 97-231, Rebuttal Panel Testimony, p. 18)

30. BellSouth has investigated several alternatives to provisioning an unbundled loop where the existing loop facility is currently served by IDLC. Two technically feasible alternatives have been identified: (1) Reassign the loop from an integrated carrier system and use a physical copper pair, or (2) In the case of Next Generation Digital Loop Carrier (NGDLC) systems, "groom" the integrated loops to form a Virtual Remote Terminal (RT) set-up for inward voice. (Affidavit of Alphonso J. Varner on Behalf of BellSouth paragraphs 90-92). However, the cost of these methods may not be significantly lower than the existing UDLC-based cost due to the additional equipment required to isolate the voice grade circuit and there may be technical limitations on the number of circuits as well as limits on the availability of the facilities. Accordingly, savings from use of IDLC have not been assumed.

31. BellSouth's study approach uses existing wire center locations and existing cable routes, sizes, and types of placement as the best indication of the future characteristics of the network. For example, cable routes today follow streets and roads. There is no reason to believe that will not be the least cost route for the future. While there may be some exceptions, the existing type of placement (aerial, buried, or underground) was chosen because it is most efficient and future cable placements along the same route are not likely to change. BellSouth's approach provides the best estimate of what a forward-looking, efficient network would cost to provide service in the BellSouth region. (Rebuttal Panel Testimony, pp. 11-12)

32. The development of the Residual Recovery Requirement cannot be used to paint the cost methodology employed by BellSouth as embedded. The Residual Recovery Requirement was developed solely to determine the short-fall between costs resulting from a theoretical network based on economic principles and the actual costs incurred by the provider of service, BellSouth. As previously stated, the rates adopted by the LPSC do not include the Residual Recovery Requirement.

33. Parties have questioned BellSouth's use of a 20% fall-out rate in order processing, stating that this reflects an embedded input. BellSouth's fall-out rate is based on actual experience with electronic ordering. The 20% fall-out rate was estimated after consulting with subject matter experts who had experience with orders from Interexchange Carriers (IXCs) for access service. In the early stages of electronic ordering by the IXCs (beginning in 1984) there was a fall-out rate in excess of 30%. Over time (after more than 10 years of experience), that rate has fallen to 10%. Over a three year period, it is anticipated that the error rate for UNE orders will follow a similar pattern and the average over the three year study period will be approximately 20%.

34. Additionally, the statement that a 1-2% fall-out rate has been achieved by other ILECs is misleading. This level of accuracy has been attained only for resale, not ordering of UNEs which involves not only a transfer of responsibility but also coordination of number portability and the physical movement of the loop from its connection to the BellSouth switch.

35. Parties have also questioned the fill (utilization) factors employed by BellSouth in the development of costs. Mr. Follensbee states that BellSouth has based the utilization calculation on "actual utilization levels, rather than efficient forward-



looking practices.” As I discussed previously, BellSouth used actuals as a starting point, making adjustments as necessary to reflect forward-looking projections. However, there are no indications that most utilization levels should vary substantially over time. One must keep in mind that the utilization factors reflect the total network, not just an isolated cable or switch. This postulate anticipates both churn and growth. For example, as one cable route nears exhaustion, another will just be placed in service. This situation will continue in the future. Thus, overall the utilization level will remain fairly constant. As Mr. Baeza explained in his direct testimony filed in LPSC Dockets U-22022/U-22093, BellSouth has “planned our networks to serve our customers efficiently and effectively and that fact is reflected in our utilization factors.”

#### ***B. Vertical Features***

36. Both AT&T and MCI contend that vertical features are part of the port. However, this is just the methodology proposed by the AT&T witness, Ms. Petzinger, and should not be interpreted as fact. The port costs developed by BellSouth include only the cost of the physical termination on the switch. This would be equivalent to just the disk drive on your personal computer: the point of access, not the total processing capability. AT&T claims that the costs associated with the processor, admittedly one of the major components of feature costs, should be allocated over the number of lines in the switch and be combined with the port costs. This proposal violates one of the guidelines of economic cost theory, i.e. cost should be determined based on cost causality. The processor is used to set-up and maintain calls and to provide feature operations on those calls. All of the processor functions are usage sensitive activities, i.e. the cost is caused by usage. If one were to agree with the AT&T/MCI proposal, that is, the processor

exhaust is a function of line capacity, then there would be no cost causative relationship for any service except ports. This in turn would encourage high usage demand because, if rates were set at these costs, there would be no price for feature usage. This arrangement and associated demand would ultimately lead to the exhaust of the switch based on usage. Thus, BellSouth has appropriately represented the cost causative relationship in its studies, one based on feature usage.

37. AT&T and MCI have chosen to ignore other costs associated with features. Features must be activated in order to function, i.e. there is labor involved to complete the switch translations. Additionally, some features require hardware, e.g., conference circuits, CLASS modem cards, announcement circuits, or scan points. Another major component of feature costs is the right-to-use (RTU) fees BellSouth must pay to the vendors. These RTU fees constitute approximately 40% of the feature costs applicable to a 2-wire analog port as presented to the Louisiana Commission.

38. AT&T's witness, Ms. Petzinger, has selectively interpreted contractual agreements BellSouth has with its vendors, failing to explain that these contracts are for a limited number of specified offices and are confined in application to replacement expenditures, only. Replacement is not the normal course of business; switch growth accounts for over 70% of the switch expenditures. By extrapolating a contract developed for one application into the whole universe of switch expenditures, an inaccurate estimate of cost will result. (Rebuttal Panel Testimony, pp. 45-48)

39. AT&T implies that Ms. Dismukes recommended to the Commission that BellSouth's Vertical Features study be rejected. That is not true. In fact, she proposed rates generated by the BellSouth model using her inputs. Ms. Dismukes indicated in her

testimony that she was “still assessing” the Vertical Features study. (Dismukes Testimony, pp. 44-46) After filing her testimony she continued her analysis and updated her findings during her cross-examination, actually proposing a higher feature cost than she did in her written testimony. (Appendix C-3 Tab 273 submitted with BellSouth 271 Application in CC Docket 97-231, LPSC Hearing Volume Number 9)

40. BellSouth has accurately portrayed the switch functionalities in its list of vertical features. These feature costs were appropriately based on usage characteristics. While these items have been listed separately in the cost development, the rate has been set to include both the port and its applicable features.

### *C. Nonrecurring Costs*

41. AT&T asserts that BellSouth’s time estimates are “based on time estimates and other information gathered in the early 1990’s,” and ALTS implies that BellSouth’s nonrecurring costs do not reflect forward-looking economic costs. Both AT&T and ALTS are incorrect. At the conception of the study process every effort was made to update the inputs into the studies to reflect a forward-looking environment. This included the inputs into the nonrecurring cost development. Cost analysts met with appropriate subject matter experts, who in turn reviewed the current practices, determined anticipated process improvement savings, and provided a forward-looking, yet achievable, time estimate. The time estimates provided related specifically to the work required to provision UNEs for CLECs.

42. MCI’s comments (page 59) propose a “forward-looking” nonrecurring cost for installation of a two-wire analog voice-grade loop of \$1.91 “when an existing BOC customer migrates to a CLEC or \$1.71 for installation of any new (or additional) service

for a CLEC customer.” In the Louisiana docket, AT&T/MCI presented a nonrecurring model which was utilized to develop these rates. This model was based on the premise that the provisioning of unbundled network elements could be accomplished with little or no human intervention. However, the technology and support systems required to achieve such a level of seamless order flow are currently unattainable.

43. As part of the nonrecurring cost development, BellSouth included the cost of disconnect, appropriately discounted to account for the fact that the disconnect will occur in the future. This has been a standard practice in most cost studies conducted to support general tariff filings and thus was adopted for these studies. However, if CLECs feel strongly that this cost should be paid only upon disconnect, BellSouth would be willing to enter into such an arrangement. In fact, the LPSC established a separate rate for disconnects which would be charged at the time of disconnect.

#### ***D. Directory Assistance Database Service (DADAS)***

44. BellSouth developed the costs associated with producing and shipping a magnetic tape containing directory listings. These costs were then recovered over the average number of requested directory listings. This is pure cost recovery and is the most suitable means by which to insure recovery of costs.

#### ***E. Collocation***

45. AT&T states that BellSouth’s collocation rates are not cost-based. (AT&T Comments, p. 38). However, this is simply not true. BellSouth filed a forward-looking cost study for both Physical and Virtual Collocation following the same general methodology discussed previously. The rates adopted by the LPSC are based on these cost studies with modifications prepared by Ms. Dismukes.

#### ***F. Interim Number Portability***

46. MCI implies that the BellSouth cost studies for interim number portability (INP) are incorrect. (MCI Comments, pp. 59-60.) However, the INP cost studies are based on the same principles and cost methodology discussed above. These studies and methodology were adopted by the LPSC along with the modifications proposed by Ms. Dismukes.

#### ***Conclusion***

47. Based on the foregoing, the costs provided by BellSouth and subsequently modified by the LPSC Staff Consultant, Ms. Dismukes, meet the requirements of the Act as well as the requirements of the Order and provide a valid and appropriate basis for rates.

I hereby swear that the foregoing is true and correct to the best of my information and belief.

D. Daonne Caldwell

D. Daonne Caldwell  
Acting Director  
Finance  
BellSouth Telecommunications, Inc.

Subscribed and sworn to before me this 18  
day of December, 1997.

Thel H. Sears  
Notary Public

Notary Public, Fulton County, GA  
My Commission Expires Sept. 10, 2000

I hereby swear that the foregoing is true and correct to the best of my information and belief.

D. Daonne Caldwell

D. Daonne Caldwell  
Acting Director  
Finance  
BellSouth Telecommunications, Inc.

Subscribed and sworn to before me this 12  
day of December, 1997.

Sheyl S. Sears

Notary Public

**Notary Public, Fulton County, GA  
My Commission Expires Sept. 10, 2000**





**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of  
Application by BellSouth Corporation  
for Provision of In-Region, InterLATA  
Services

CC Docket No. 97-231

AFFIDAVIT OF GUY L. COCHRAN, being duly sworn, deposes and says:

1. My name is Guy L. Cochran. I filed an affidavit as part of the original filing in this docket before the Commission, principally addressing BellSouth Telecommunications Inc.'s (BST) compliance with the requirements of Section 272. The purpose of my affidavit is to reply to comments filed related to my original affidavit in this proceeding.

**I. BELLSOUTH HAS ELECTED TO DISCLOSE ALL TRANSACTIONS  
ALTHOUGH BELLSOUTH HAS NO SECTION 272 SUBSIDIARY AT  
THIS TIME**

2. AT&T and MCI believe that BellSouth has not complied with the public disclosure requirements of Section 272(b)(5). BellSouth could not possibly have violated these public disclosure requirements, as BellSouth currently does not provide services to which Section 272 applies, see Section 272(a)(2). To show its future compliance, however, BellSouth has provided written disclosure of all transactions between BST and BellSouth Long Distance (BSLD).
3. This written disclosure provides information on compliance with the rules that applied at the time the transactions took place, namely the Commission's Affiliate Transaction Rules. For example, transactions performed during 1996

were on the fully distributed cost basis as required by the Rules. These are the only Rules which apply to the transactions.

4. In fact, if the Section 272 requirements were applicable as AT&T and MCI assert, BST would be able to apply the exception for activities covered by Section 272, set out in the revised Affiliate Transaction Rules released in CC Docket No. 96-150, to its transactions with BSLD. The more burdensome aspects of the revised affiliate transactions rules, which BellSouth has applied to these transactions, would not even be applicable. If Section 272 requirements were applicable, the fully distributed cost of each transaction would be irrelevant and would not have been the price of these transactions as indicated by BellSouth disclosure. AT&T and MCI cannot have it both ways.
5. The written disclosure also describes those services which BST will provide to BellSouth Long Distance and is willing to provide to nonaffiliates on a nondiscriminatory basis after BellSouth receives 271 approval. My first affidavit clearly states that these services will be "nondiscriminatory." If such services are provided to BSLD, nonaffiliates would also be able to receive these services from BST under contract with the same terms, conditions, and rates as BSLD. In cases where BST has finalized a contract with BSLD, the contract is posted on BSLD's Internet page. Only after terms and conditions are final will contracts be available for review at BST's Atlanta Headquarters and posted by BSLD on the Internet.

## **II. FURTHER INFORMATION ON SPECIFIC TRANSACTIONS**

6. MCI expresses concern over the possibility of BSLD being allowed to use BST's internal corporate network. BST does not provide and has no plans to provide, at this time, any services to BSLD off of BST's corporate network.
7. AT&T takes issue with BST's plans to provide Billing and Collection services which are similar to those currently provided to other carriers. As AT&T and other interexchange carriers are aware, due to their requests for the same type of service in the past, when BST provides customization of billing and

collection services for a carrier, BST charges that carrier for that work. Previously, a carrier such as AT&T or MCI would be the exclusive recipient of the customized process they requested. However, in compliance with the nondiscrimination rules, any processes are be provided to a Section 272 affiliate will be provided to all carriers requesting this same service. This is the only difference between the work done for other carriers in the past and the work done for a Section 272 affiliate. Any new process designed for BSLD, after Section 271 approval is obtained, will be available to all carriers.

8. AT&T complains that the effective date of the BellSouth Telecommunications/BellSouth Long Distance Physical Collocation Agreement is discriminatory in that the two year term of the Agreement begins after BSLD's equipment becomes operational while AT&T's physical collocation arrangements are for a three year term, beginning at the effective date of the Interconnection Agreement ("Agreement") executed between AT&T and BST. Physical collocation arrangements are a matter for negotiations between the incumbent local exchange company and another telecommunication carrier requesting negotiations. During the course of the negotiations, AT&T did not request a different term for the physical collocation arrangements. The three year term of the Agreement is contained in the General Terms and Conditions section of the AT&T Agreement and, as originally proposed by AT&T, is applicable to all attachments to the Agreement. Pursuant to Section 252(i) of the Telecommunications Act, however, AT&T or any requesting telecommunications carrier may request physical collocation arrangements pursuant to all the rates, terms and conditions contained in the BSLD agreement.
9. MCI asserts that BST has allowed BSLD to use the "BellSouth" brand name without compensation to BST. MCI makes false assumptions as to the ownership of the "BellSouth" brand name. The "BellSouth" brand name belongs to BellSouth Corporation, which allows its corporate family to use the

brand name. Thus, there is no agreement to be made between BST and BSLD concerning the "BellSouth" brand name.

10. MCI asserts that it is unable to conclude if "competitively sensitive information about BST services" was transferred to BSLD in the form of personal knowledge with the employees who were transferred from BST to BSLD. The Telecommunication Act of 1996 requires separate officers, directors, and employees. It does not prohibit the transfer of employees within BellSouth Corporation. There is nothing in the Act that prevents a BSLD employee from applying his or her knowledge and experience to work done for BSLD. Nevertheless, all BellSouth employees are required to sign personal responsibility commitments which include statements whereby employees are instructed not to misuse information gained while they are employed by BST or any other BellSouth entity. Specifically, the Personal Responsibility Handbook states as follows: "Proprietary information about customers, suppliers or partners shouldn't be used for inappropriate purposes by the BellSouth company that received the information. Nor should the information be inappropriately provided to other companies."
11. MCI asserts that there are improprieties associated with BST being reimbursed by BSLD for the 2 to 4 weeks it took to handle the payroll transition in early 1996. As the original Jarvis affidavit described, this transaction was for employee expense corrections. As the first employees from BST accepted positions at BSLD, the transition between payrolls was being worked out. BST continued to incur payroll and benefit costs for a period between two weeks and one month after the employees accepted positions at BSLD. BellSouth Corporation's subsidiaries do not *drop* employees from their payroll when the employee is transferring within BellSouth Corporation until medical coverage, tax withdrawals, etc. are transferred properly to the new BellSouth entity. As indicated by the Jarvis affidavit, prior to the implementation of CC Docket No. 96-150, transfer transactions were billed under the CC Docket No. 86-111 method of fully

distributed cost so BSLD gained no advantage. As MCI could see from the disclosure of the transaction summaries it received from BST, fully distributed cost includes not only direct costs related to the individual employees, but all overhead and the prescribed rate of return on investment as set by the Commission. This situation is not mirrored when an employee leaves the BellSouth family as items such as medical coverage and payroll taxes are no longer BellSouth's responsibility.

12. Sprint asserts that BST has made contradictory statements related to testing BSLD equipment. The testing performed by the BellSouth Technology Assessment Center (BTAC) was to provide analysis data of Lucent load test data on the Lucent #5ESS central office switch and DMS/SCP Interface testing. As stated in BellSouth's Cost Allocation Manual, "The BellSouth Technology Assessment Center will offer facilities for both environmental and physical testing of telecommunications plant materials in addition to providing a *simulated* network capable of testing both software and network elements [as a nonregulated line of business to any carrier requesting such service]." Clearly, the BTAC provides testing services only. The BTAC does not perform operating, installation, or maintenance functions for carriers, including BSLD.

### **III. BELLSOUTH HAS CONTROLS IN PLACE**

13. AT&T claims that BellSouth has no controls in place for Section 272 compliance, while Sprint and MCI complain that BellSouth is not currently complying with all of Section 272's safeguards. These claims are incorrect. First, BellSouth will continue to have safeguards in place to ensure compliance with all Commission rules. Second, as Section 271 approval has yet to be obtained, Section 272 compliance is not yet applicable.
14. Both the Cochran and Jarvis affidavits disclose that BSLD has been organized from its outset to allow compliance with Section 272 rules, although BSLD is not a Section 272 affiliate. Both affidavits discuss how

BellSouth will comply with Section 272(b)(1-5). Specifically, BST and BSLD have (1) separate employees, officers, and directors; (2) no joint ownership of switching or transmission equipment; (3) separate books of accounts; (4) accounting rules under which each entity's books are maintained; and (5) the annual reporting mechanisms and audits those reports are subject to.

15. The Cochran affidavit also emphasizes that transactions between BSLD and BST are performed in accordance with the applicable Parts 64.902 and 32.27 Rules. Accordingly, as with all new nonregulated services or affiliate transactions, subject matter experts from legal, regulatory, and accounting participate on the product or transaction teams to educate teams on all applicable rules and laws.
16. On AT&T's behalf Ms. Patricia McFarland sets forth a wish list of information they desire to have under the guise of providing information which substantiates controls and compliance. The information which AT&T would like to have is either already disclosed or is not required under Section 271. For instance, all "specific terms and conditions" for transactions with BSLD which will be subject to the nondiscrimination rules when BSLD becomes a 272 affiliate have been disclosed on the Internet and are available for public inspection. In fact, AT&T has obtained copies of these contracts. Financial reports for BellSouth Corporation and BST are a matter of public record as these are filed via SEC and FCC financial disclosure requirements. Items such as "[t]he specific nature and extent of funding of BSLD" are not necessary to test Sections 271 and 272 compliance. BST has already stated that BSLD has no debt recourse to BST's assets.
17. Ms. McFarland also dredges up an audit that was undertaken in the early 1990's by the Florida Public Service Commission Staff as being somehow relevant to BellSouth's Louisiana application. This audit, the final report from which was never adopted by any state regulatory commission or the FCC, is not relevant to this application or BellSouth's compliance with Section 272.


Further, BellSouth's supposed "obstructionist" actions during this audit related solely to protection of BellSouth's confidential and proprietary information against overbroad disclosure. BellSouth cooperated fully with the audit team.

18. Additionally, Ms. McFarland of AT&T references the audit performed by Ernst and Young of BellSouth, and other RBOCs, related to the common line revenue pool administered by the National Exchange Carrier Association (NECA). The primary issue that arose from this audit related to BellSouth's method of computing "minimum bank balances". After reviewing BellSouth's response on this issue, the FCC revised its rules to specifically include BellSouth's methods. The Consent Decree (exhibit 1 attached) contains an explanation of BellSouth's position. Note that there were no penalties, fines, or other adverse action taken against BellSouth, other than requiring a follow-up independent audit of BellSouth's Part 36 processes. Coopers & Lybrand (C&L) was engaged to conduct this audit. C&L's audit report (exhibit 2 attached), filed with the FCC on October 28, 1997, reflects no adverse findings, issues, or recommendations for BellSouth's Part 36 input processes.

I hereby swear that the foregoing is true and correct to the best of my information and belief.

  
\_\_\_\_\_  
GUY L. COCHRAN

Subscribed and sworn before me on this 16 day of December, 1997

  
\_\_\_\_\_  
NOTARY PUBLIC

**Notary Public, Gwinnett County, GA**  
**My Commission Expires Feb. 19, 2000**



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